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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of)

PACIFIC BELL)

Petition for Rulemaking to Amend)
Section 69.106 of the)
Commission's Rules)
_____)

RM - 8496

NYNEX REPLY COMMENTS

The NYNEX Telephone Companies¹ ("NYNEX") hereby file their Reply Comments in support of Pacific Bell's petition for rulemaking to amend Section 69.106 of the Commission's Rules relating to the local switching rate element.

In its petition, Pacific Bell requested a rulemaking so that the switched access local switching rate will include a per-message call setup charge in addition to the per minute usage charge. Pacific Bell showed that the current rate structure, which is limited to a minute of use rate, causes long calls to subsidize short calls. Pacific Bell also showed that the increasing growth in short transaction processing calls is imposing additional costs on the network that are not compensated by the access charges applicable to those calls.

¹ The NYNEX Telephone Companies are New York Telephone Company and New England Telephone and Telegraph Company.

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Several parties noted that Pacific Bell's proposal would produce a more cost-based rate structure.² NYNEX agrees. The current rules, which require the local exchange carriers ("LECs") to apply average per-minute rates, do not take into account the higher-than-average cost of setting up a long distance call. This creates an uneconomic rate structure which encourages customers with long duration calls to bypass the switched network.

While some commenters dispute Pacific Bell's assertion that the proportion of short duration calls has increased since the Commission adopted the current access charge structure,³ comments submitted by transaction service providers attest to the fact that the public switched network is experiencing tremendous growth in short duration calls due to "a whole host of services that did not exist, or were used less frequently, a decade ago," including short burst fax messages, paging, debit card transactions, and credit card and check verification services.⁴ The transaction providers also point out that their services will play an increasing role in the Administration's National Network Infrastructure ("NII") initiative.⁵ For example, government benefits such as food stamps, social security, and veterans benefits may be delivered electronically, which will increase the proportion of short duration messages.

² See, e.g., AT&T at p.1; Bell Atlantic at pp. 1-2; GTE at pp. 3-4; SWB at pp. 1-2.

³ See, e.g., MCI at pp. 3-4.

⁴ Compuserve at pp. 4-6; see National Data at pp. 1-2; FFMC at pp. 3-4.

⁵ See Compuserve at p. 11.

Clearly, it is uneconomic to maintain averaged minute-of-use rates in the face of significant changes in the use of the network. Pacific Bell has correctly identified a need to restructure the local switching rates to prevent further uneconomic bypass of the switched network.

There are other aspects of the current rate structure which need to be addressed to produce cost-based rates. For instance, AT&T notes that the local switching category includes significant nontraffic sensitive ("NTS") costs which are currently recovered on a totally usage-sensitive basis.⁶ AT&T argues that a truly cost-based local switching rate structure would establish separate, flat-rated termination charges to recover these NTS costs. NYNEX is attempting to address this problem in the short term through its request for a waiver to implement the Universal Service Preservation Plan ("USPP").⁷ In that waiver request, NYNEX proposed to recover local switching NTS costs through a monthly per-line charge assessed on the interexchange carrier to whom a line is presubscribed. Although AT&T would like to see this charge applied to the end user, the NYNEX proposal is a reasonable interim step toward the cost-based structure that AT&T supports.

Several commenters agree that the current rate structure needs to be changed to produce cost-based rates, but they argue that Pacific Bell's proposal should be considered in the context of a comprehensive proceeding to reform the

⁶ See AT&T at p. 4.

⁷ See *In the Matter of NYNEX Transition Plan to Preserve Universal Service in a Competitive Environment*, DA 93-1537, *Petition for Waiver* filed December 15, 1993.

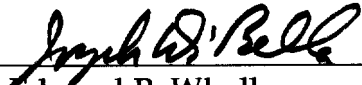
entire access charge structure.⁸ While NYNEX agrees that there are several aspects of the current access charge system that need to be reformed, such a proceeding could take years to complete. A failure by the Commission to address the need for restructure of uneconomic rates in the short term can subject the LECs to uneconomic bypass where competition for exchange access services has created a significant threat of bypass. In its USPP petition, NYNEX demonstrated that the Commission should grant waivers of its access charge rules where the LECs are subject to more advanced competitive entry, such as in the NYNEX region.

⁸ See, e.g., AT&T at pp. 3-4; Ad Hoc at p. 3; Financial Service Providers at p. 1.

For these reasons, NYNEX supports Pacific Bell's petition for rulemaking to develop a local switching call setup charge. However, the Commission should also grant waivers of its access charge rules where appropriate to allow the LECs to move more quickly to cost-based rates where, as in the NYNEX region, they are subject to unusually intense competitive pressures.

Respectfully submitted,

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Dated: September 6, 1994

CERTIFICATE OF SERVICE

I hereby certify that copies of this pleading were mailed this date, first class postage prepaid, upon the persons listed on the attached service list.



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Dated: September 6, 1994

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